



23 December 2013

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SUBMISSION ON THE COMMERCE COMMISSIONS INITIAL OBSERVATIONS ON FORECASTS DISCLOSED

Introduction

1. WEL Networks Limited ('WEL') appreciates the opportunity to provide feedback on the Commerce Commission's ('Commission') Initial observations on forecasts disclosed by 29 electricity distributors in March, 29 November 2013 (the 'Paper').
2. WEL Networks contact person for this submission is:

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Background

3. WEL is a consumer owned supplier of electricity line services and as such is subject to information disclosure regulation but exempt from price quality regulation. In preparing this submission WEL has considered the Paper and attended the associated workshop on 12 December 2013. Following the workshop WEL provided the Commission with detail on a number of data discrepancies found in the Paper and associated data file.
4. The Commission is required to publish summary analysis of the information disclosed by distributors under Part 4 of the Commerce Act 1986 ('Act'). WEL notes the Paper invites views on the types of analysis interested parties would find most useful as part of the summary and analysis. WEL submits that further work is required on the types of analysis available.

General Observations

5. The Paper is primarily concerned with the development of macro quantitative models to predict future expenditure for the purpose of gaining a better understanding of distributor's forecasts. WEL acknowledges this purpose and issues canvassed in the Paper are important to the incremental improvement of both information disclosure and price quality regimes. It is our view their use will be of marginal benefit only.
6. WEL believes the Paper and initiative would benefit from being established within a broader context of the Commissions plans to prepare summary and analysis or to refine the input methodologies. The use of models to analyse distributor's forecasts for the later purpose seems more intuitive given the proceeding work and processes adopted by the Commission as part of setting default price paths.
7. WEL encourages the Commission to establish how and to what extent the models may contribute to the required summary and analysis task and in particular how this tool and analysis contributes to fulfilling the overall objective of promoting a greater understanding about distributors performance, relative performance and changes in performance over time. It would seem the development of the forecasting model is just one component of a suite of analysis the Commission may develop but has yet to engage interested parties on.
8. WEL is concerned that the modelling task and accuracy of it is susceptible to becoming the focus of the exercise and overstated in importance. WEL supports the use of the macro models as proposed, as one tool only, to help gain an understanding of supplier forecasts but believes the primary focus should always remain on suppliers being able to justify and explain any variances between successive forecasts and forecast and actual outcomes themselves. For example WEL believes the models could be usefully used as a screening mechanism for identifying predictable forecast versus that that will require further investigation and explanation and could not be used to infer poor performance.

Further Model Development Required

9. WEL supports the continued development of the forecast models. WEL has general concerns for the identification and use of the ownership as a driver. Instead suggests the Commission explore service and/or compliance as potential alternatives categorisations and improvements in classification of the primary drivers.
10. WEL supports the use of multiple models to better explain the different classifications of expenditure but only where the explanatory power is materially better. The Commission will need to carefully balance the additional complexity against the models ability to explain variances from distributor's actual forecasts.
11. WEL agrees the initial level of expenditure is an important determinant in the models and suggests a third option should be investigated which is based on establishing a forecast based on all actual and forecast information rather than the two canvassed in the Paper. The statistical significance of the alternatives should be the primary criteria for establishing which option to choose.

12. WEL supports the need for further discussions to be held to examine different approaches to achieve the overall goal of the commission.

Reputational Risk

13. As noted above, WEL is concerned the accuracy of the forecasts may become a central focus yet not be able, under all circumstances, to explain any variances observed. To avoid reputational damage or potential disputes over the interpretation of the analysis, WEL believes it will be an important procedural step to consult with individual distributors and record their feedback or explanation in any publication made.

14. Thank you for the opportunity to make this submission. If the Authority wishes to discuss any aspects of this submission please do not hesitate to contact me.

Yours faithfully

Kevin Sharp
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WEL Networks Limited